

Message Text

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PAGE 01 JIDDA 05787 01 OF 02 191641Z

47

ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 FEAE-00 INT-05 OES-05 TAR-01 /105 W

----- 118085

R 190615Z AUG 75

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 2175

UNCLAS SECTION 1 OF 2 JIDDA 5787

E.O. 11652: N/A

TAGS: EFIN, EIND, EINV, SA

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596

FOLLOWING REPLY TO REFTEL WAS DELAYED BY TURNOVER IN EMBASSY
ECONOMIC SECTION STAFF:

SUMMARY: ALTHOUGH ALL IS NOT A BED OF ROSES FOR THE PRIVATE
FOREIGN INVESTOR IN SAUDI ARABIA, THE MANY POSITIVE REASONS
FOR INVESTING HERESHOULD RAPIDLY OUTWEIGH THE DRAWBACKS.
THE USUAL BOTTLENECKS CREATED BY INADEQUATE INFRASTRUCTURE
WILL YIELD TO THE MASSIVE AMOUNTS OF BUDGETED FUNDS ALLOCATED
TO ALLEVIATE THE PROBLEMS, THEREBY PERMITTING THE WIDE VARIETY
OF OFFICIAL INVESTMENT INCENTIVES TO HAVE A MAJOR IMPACT ON
POTENTIAL INVESTORS. IN THE FINAL ANALYSIS, IT IS THE
CONSERVATIVE ATTITUDE OF THE GOVERNMENT, AND ITS CONTINUED
FIRM BELIEF IN THE SANCTITY OF PRIVATE PROPERTY WHICH WILL
MAKE THE DIFFERENCE FOR THE PRIVATE INVESTOR. POLITICAL
STABILITY WILL ALSO BE A DECISIVE FACTOR FOR THOSE
LOOKING FOR A CENTER OF OPERATIONS IN THE MIDDLE EAST.
THUS, ALTHOUGH A VERY LARGE PORTION OF THE FOREIGN
DIRECT INVESTMENT IN SAUDI ARABIA WILL ACTUALLY BE
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PAGE 02 JIDDA 05787 01 OF 02 191641Z

FINANCED BY THE KINGDOM ITSELF, A SIGNIFICANT NUMBER OF

PRIVATE INVESTORS FROM AROUND THE WORLD WILL BE MAKING SOME FORM OF INVESTMENT HERE DURING THE NEXT DECADE.

END SUMMARY

1. THE WELCOME MAT IS STILL OUT FOR FOREIGN DIRECT INVESTMENT IN SAUDI ARABIA. NOT ONLY IS PRIVATE INVESTMENT WELCOME, IT IS ACTIVELY SOUGHT AND ENCOURAGED AND IS SEEN AS AN INDISPENSABLE ADJUNCT TO SAUDI PLANS FOR INDUSTRIALIZATION. ALTHOUGH THE MAJORITY OF INVESTMENT PLANS NOW BEING IMPLEMENTED INVOLVE DIRECT DEALS BETWEEN PETROMIN (THE MARKETING AGENCY OF THE MINISTRY OF PETROLEUM AND MINERALS) AND FOREIGN FIRMS, OFFICIAL SAG POLICY IS TO USE PRIVATE MEANS WHENEVER AND WHEREVER POSSIBLE. IN FACT, JOINT VENTURE PROJECTS BETWEEN A NUMBER OF U.S. FIRMS AND PETROMIN ARE NOW WELL UNDER WAY. PROJECTS UNDERTAKEN BY THE PUBLIC SECTOR BECAUSE THEY ARE TOO LARGE FOR THE KINGDOM'S PRIVATE SECTOR WILL EVENTUALLY BE TURNED OVER TO THE PRIVATE SECTOR BY SALES OF SHARES. THE OPIC AGREEMENT, SIGNED THIS YEAR BY THE U.S. AND SAUDI ARABIA, WILL ENCOURAGE U.S. DIRECT INVESTMENT (SEVERAL APPLICATIONS FOR OPIC COVERAGE ARE ALREADY PENDING).

2. THE PRIMARY SAUDI GOAL IS TO ATTRACT TECHNOLOGY, NOT FUNDS. THUS IT IS ABLE TO OFFER A UNIQUE SPREAD OF INCENTIVES TO ENTICE FOREIGN INVESTORS. PERHAPS THE MOST LUCRATIVE INCENTIVE IS THE PROSPECT OF LOW COST ENERGY. NATURAL GAS AND PETROLEUM PRODUCTS ARE AVAILABLE IN QUANTITY AS ENERGY SOURCES AND FEEDSTOCKS, AND THE GOVERNMENT INTENDS TO SET WELL-HEAD PRICES SUFFICIENTLY LOW TO MAKE INVESTMENT IN THE KINGDOM VERY ATTRACTIVE. ADDITIONAL INCENTIVES INCLUDE THE VARIETY OF FUNDS PROVIDING MONEY AT NOMINAL INTEREST RATES: THE GENERAL INVESTMENT FUND PROVIDES LOANS IN THE PETROCHEMICALS AREA FOR VENTURES WITH PETROMIN; THE SAUDI INDUSTRIAL DEVELOPMENT FUND WILL LOAN UP TO 50 PERCENT OF THE COST OF A PROJECT FOR AN ADMINISTRATIVE COST OF 2 PERCENT OR LESS; THE REAL ESTATE DEVELOPMENT FUND, THE CONTRACTORS FINANCING PROGRAM, THE ARAB INVESTMENT

UNCLASSIFIED

PAGE 03 JIDDA 05787 01 OF 02 191641Z

COMPANY, THE ISLAMIC DEVELOPMENT FUND AND A NUMBER OF OTHER PROVIDE A READY SOURCE OF SAUDI AND MULTILATERAL FINANCING.

3. THE SAUDI GOVERNMENT ALSO PROVIDES A VARIETY OF TRADITIONAL INCENTIVES: LAND AT NOMINAL RATES; EXEMPTION FROM IMPORT DUTIES; 5 YEAR TAX HOLIDAY; PROTECTIVE TARIFFS; TRAINING SUBSIDIES; MARKET SURVEYS AND FEASIBILITY

STUDIES CONDUCTED BY THE INDUSTRIAL STUDIES AND DEVELOPMENT CENTER; AND PURCHASE PREFERENCES WITH THE GOVERNMENT (IF THE DOMESTIC PRICE IS WITHIN 25 PERCENT OF THE IMPORTED COMPETITOR).

4. A VERY LIBERAL MINING CODE IS ALSO IN EFFECT. IN FACT IT WAS RECENTLY HAILED BY ONE INTERNATIONAL MAGAZINE AS A MODEL FOR OTHER DEVELOPING NATIONS WISHING TO ENCOURAGE INTERNATIONAL MINING COMPANIES. IN ADDITION TO SIMPLIFIED LICENSING PROCEDURES, A MAXIMUM OF 10,000 SQUARE KILOMETERS FOR AN EXPLORATION AREA, AND 30 YEAR CONCESSIONS, THE CODE ALSO PROVIDES MOST OF THE INCENTIVES LISTED ABOVE UNDER PARA. 3.

5. IN PRACTICE, THESE INCENTIVES HAVE NOT PROVEN TO HAVE THE IMMEDIATE IMPACT THEIR DESIGNERS FORESAW. SAUDI ADMINISTRATIVE PROCEDURES INVOLVED IN GRANTING JOINT VENTURE LICENSES AND IN EVALUATING PROJECTS FOR JOINT VENTURES BETWEEN PRIVATE FIRMS AND PETROMIN CONTINUE TO TAKE AN INORDINATE AMOUNT OF TIME. NO FIRM IS ELIGIBLE FOR THE VARIOUS INCENTIVES LISTED ABOVE UNLESS AT LEAST 25 PERCENT OF THE FIRM IS SAUDI OWNED (50 PERCENT FOR CONSTRUCTION CONTRACTORS), AND A FOREIGN PARTNER MUST PUT UP AT LEAST 25 PERCENT OF THE CAPITAL OF ANY PROJECT IN TESTIMONY OF HIS GOOD FAITH. THIS LATTER PROVISION, IN PARTICULAR, HAS BEEN A STUMBLING BLOCK TO SOME FOREIGN COMPANIES WHO HAD THE MISTAKEN IMPRESSION THAT THE SAUDIS WOULD BE WILLING TO FOOT THE ENTIRE BILL FOR NEW UNDERTAKINGS.

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PAGE 01 JIDDA 05787 02 OF 02 191648Z

47

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CEA-01 L-03 FEAE-00 INT-05 OES-05 TAR-01 /105 W

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R 190615Z AUG 75

FM AMEMBASSY JIDDA
TO SECSTATE WASHDC 2176

UNCLAS SECTION 2 OF 2 JIDDA 5787

6. ALTHOUGH THE SAUDI INTENTION TO SPEND MASSIVE SUMS ON DEVELOPMENT (THE CURRENT 5-YEAR PLAN CALLS FOR A TOTAL EXPENDITURE OF \$142 BILLION) CREATES A POSITIVE INDUCEMENT TO FIRMS TO GET IN ON THE GROUND FLOOR, MANY PROBLEMS ARE ALSO BEING CREATED. DUE LACK OF BASIC INFRASTRUCTURE IS A MAJOR OBSTACLE. PORT FACILITIES ARE UNABLE TO COPE WITH THE FLOOD OF GOODS NOW ARRIVING, HOUSING IS DIFFICULT IF NOT IMPOSSIBLE TO FIND, ELECTRICITY IS OFTEN AVAILABLE ONLY SPORADICALLY, AND TELEPHONE AND TELEX FACILITIES ARE AVAILABLE ONLY AFTER LONG DELAY. MANPOWER SHORTAGES ARE CRITICAL. ANY INVESTOR MUST FACE THE PROSPECT OF RECRUITING ALMOST ALL OF HIS LABOR, WHETHER SKILLED OR UNSKILLED, ABROAD. OTHER POTENTIAL INVESTORS ARE TURNED OFF BECAUSE THE SIZE OF THE LOCAL MARKET MAKES MANY PRODUCTS, IF PRODUCED HERE, DEPENDENT UPON THE EXPORT MARKET.

7. OTHER CONSIDERATIONS HAVE ALSO TENDED TO PUT A DAMPER ON OTHERWISE HIGH SPIRITS. CURRENT NEGOTIATIONS FOR 100 PERCENT TAKEOVER OF ARAMCO HAVE CAUSED SOME SECOND THOUGHTS AMONG POTENTIAL INVESTORS. GOVERNMENT POLICY VIS-A-VIS THE ARAB BOYCOTT OF CERTAIN FIRMS AND RESTRICTIVE VISA POLICIES HAVE ALSO PLAYED A ROLE.
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PAGE 02 JIDDA 05787 02 OF 02 191648Z

8. THE FOLLOWING STATISTICS ARE ONLY GENERAL APPROXIMATIONS:

A. U.S. DIRECT INVESTMENT (BOOK VALUE AT THE END OF 1974:

1. MINING AND SMELTING \$4 MILLION
2. PETROLEUM - 1,500 MILLION &
3. MANUFACTURING - 5 MILLION

TOTAL \$1,509 MILLION

&--PETROLEUM FIGURE PRESUMES 40 PERCENT U.S. OWNERSHIP OF ARAMCO. THIS ASSUMPTION WILL PROBABLY BE INVALID SHORTLY.

B. TOTAL FOREIGN DIRECT INVESTMENT (BOOK VALUE)

1. TOTAL INCLUDING U.S. - \$1,600 MILLION

2. TOP THREE CONNTRIES - GREAT BRITIAN, \$50 MILLION;
GERMANY, \$30 MILLION; JAPAN, \$20 MILLION.

C. DIRECT INVESTMENT IN THE U.S. BY SAUDIS AS OF END
OF 1974:

1. PRIVATE: ESTIMATED AT \$150 MILLION (A VERY
CONSERVATIVE ESTIMATE).

2. GOVERNMENT (NOT INCLUDING BONDS OF ANY KIND)
\$600 MILLION.

D. DATE SOURCES ARE CENTRAL DEVELOPMENT OF STATISTICS,
CENTRAL PLANNING OFFICE, AND SAUDI ARABIAN MONETARY AGENCY.
TO REPEAT:
THESE DATA ARE SUBJECT TO AN ABNORMALLY HIGH
DEGREE OF ERROR, EVEN BY LDC STANDARDS.

7. NOTE: THE SAUDI GOVERNMENT IS NOW IN THEPROCESS OF
REWRITING ITS POLICY TOWARD FOREIGN DIRECT INVESTMENT.
WE DO NOT ANTICIPATE THAT THE NEW POLICY WILL BE GREATLY
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PAGE 03 JIDDA 05787 02 OF 02 191648Z

DIFFERENT FROM THE ABOVE, OR THAT IT WILL BE IN EFFECT
SOON, BUT WILL REPORT AS SOON AS MORE INFORMATION IS
AVAILABLE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENT CLIMATE, POLITICAL STABILITY, INVESTMENT DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 19 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975JIDDA05787
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750286-0683
From: JIDDA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750841/aaaabjel.tel
Line Count: 255
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 STATE 165596
Review Action: RELEASED, APPROVED
Review Authority: ellisoob
Review Comment: n/a
Review Content Flags:
Review Date: 14 FEB 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 FEB 2003 by ReddocGW>; APPROVED <20 JAN 2004 by ellisoob>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FOREIGN INVESTMENT CLIMATE AND STATISTICS
TAGS: EFIN, EIND, EINV, SA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006